



ACTIONABLE IDEAS FOR THE ACTIVE INVESTOR

# ALPHA INSIGHTS

WEEKLY PLAYBOOK

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*“It is only in a bear market that the value investing discipline becomes especially important because value investing, virtually alone among strategies, gives you exposure to the upside with limited downside risk.”*

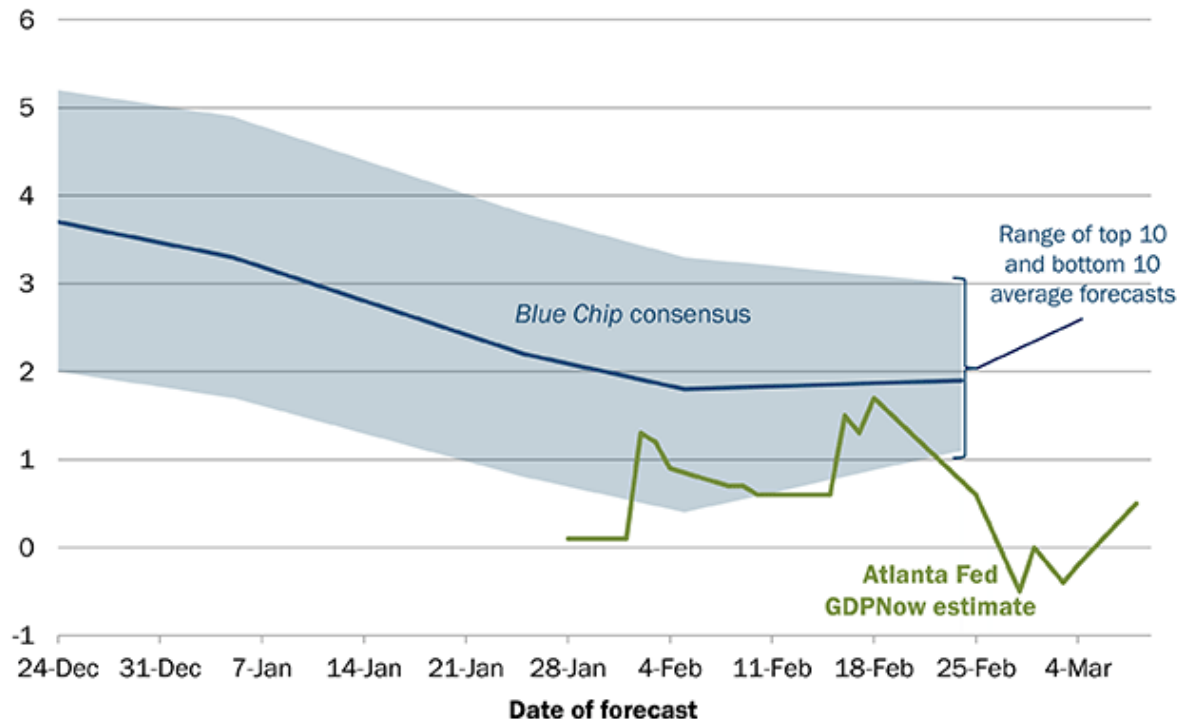
~ Seth Klarman

# REAL GDP GROWTH IS SLOWING

According to the Atlanta Fed's GDP Nowcast, real GDP growth appears poised to slow from a 7% annualized rate in 4Q21, to **less than 1%** annualized rate in 1Q22.

## Evolution of Atlanta Fed GDPNow real GDP estimate for 2022: Q1

Quarterly percent change (SAAR)



Sources: Blue Chip Economic Indicators and Blue Chip Financial Forecasts

Note: The top (bottom) 10 average forecast is an average of the highest (lowest) 10 forecasts in the Blue Chip survey.

Source: AtlantaFed.org

# CORE INFLATION IS RISING

Across the board, Y/Y measures of core inflation now grossly exceed the Fed's 2% target rate **by over 300 bps**.

Measure of underlying inflation	12-month growth rate		Average difference Measure - Core PCE	Target based on 2% Core PCE	Stats for 1-mo growth rates (2009–2019)			
	Feb-21	Feb-22			Mean	Median	P25	P75
Core CPI	1.3	6.4	0.3	2.3	1.9	2.0	1.3	2.4
FRB Cleveland Median CPI	2.1	4.6	0.5	2.5	2.2	2.3	1.9	2.6
FRB Cleveland 16% Trimmed-Mean CPI	2.0	5.7	0.2	2.2	1.9	1.9	1.4	2.3
Atlanta Fed Sticky CPI	1.7	4.5	0.5	2.5	2.1	2.2	1.6	2.6
Core PCE	1.5	5.2	0.0	2.0	1.6	1.5	1.1	2.1
Market-Based Core PCE	1.4	4.8	-0.2	1.8	1.4	1.4	0.8	1.9
FRB Dallas Trimmed-Mean PCE	1.7	3.5	0.1	2.1	1.7	1.8	1.4	2.0
FRB San Francisco Cyclical Core PCE Inflation	2.6	5.7	0.7	2.7	2.3	2.5	2.0	2.8
Cyclically Sensitive Inflation (Stock and Watson (2019))	1.9	4.7	-0.1	1.9	1.5	1.5	1.0	2.1

\*CPI-based measures last updated on March 10, 2022 with data through February 2022. PCE-based measures last updated on February 25, 2022 with data through January 2022.

Median, P25 and P75 statistics of FRB San Francisco Cyclical Core PCE Inflation are based on 12-month growth rates.

Sources: Bureau of Labor Statistics; Bureau of Economic Analysis; Federal Reserve Banks of Atlanta, Cleveland, Dallas, and San Francisco; Stock and Watson (2019); staff calculations

Measure is within target range (-/+0.25 from target)

Measure is between 0.25 and 0.50 ppt below target

Measure is more than 0.50 ppt below target

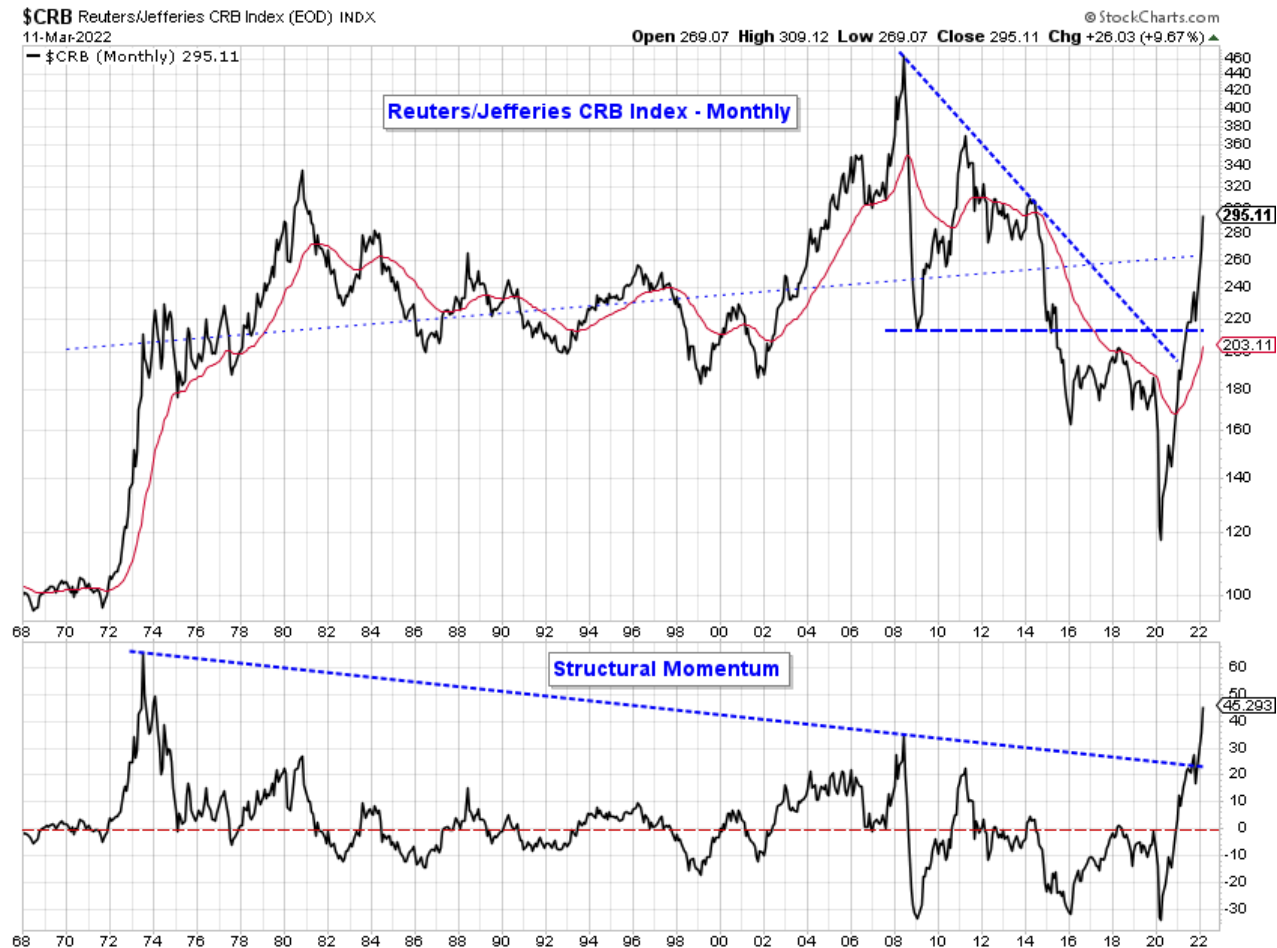
Measure is between 0.25 and 0.50 ppt above target

Measure is more than 0.50 ppt above target

Source: AtlantaFed.org

# COMMODITY PRICES ARE RISING

The CRB index is comprised of a basket of 19 of the most liquid commodity futures contracts, with **39% allocated to energy**, 41% to agriculture, 7% to precious metals, and 13% to industrial metals.

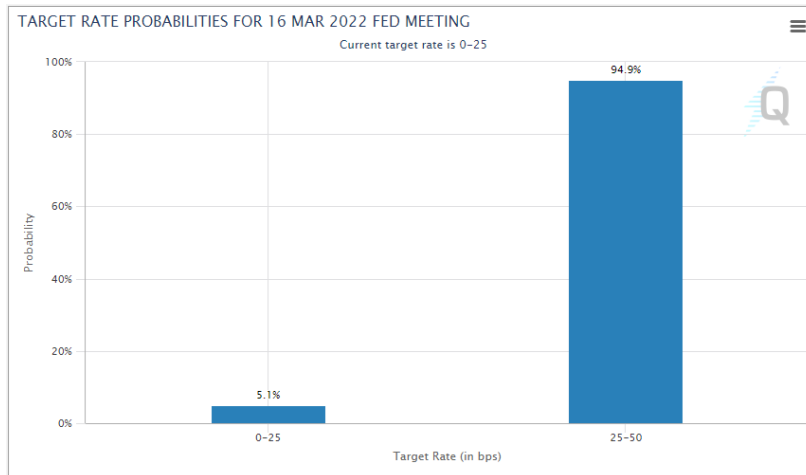


Source: StockCharts.com

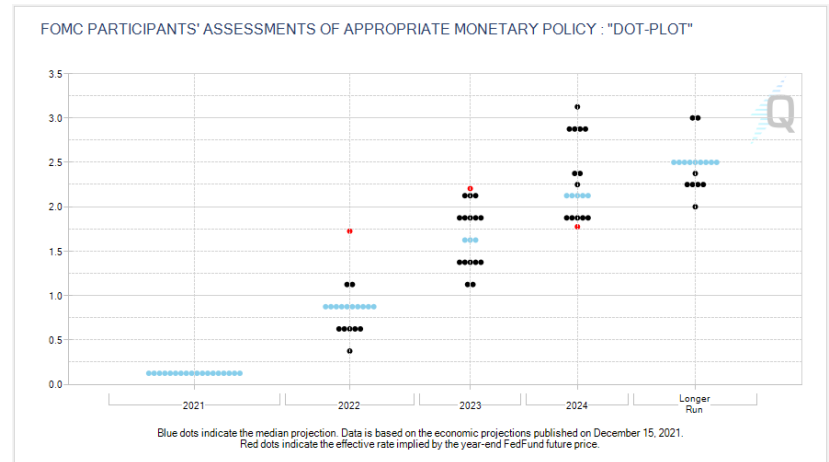
# FED POLICY IS TIGHTENING

According to the so-called “dot plot” from the January FOMC meeting Federal Reserve Board governors are currently targeting three rate hikes of 25 bps each in 2022 for an expected mid-point, year-end Fed funds target rate of 0.875%. Conversely, the market, based upon fed funds futures curve, is pricing in 175 bps of tightening by year-end in 2022. According, to CME Group, **there is a 94.9% probability of a 25 bps rate hike at the March 16<sup>th</sup> FOMC meeting**, and 5.1% probability of no rate hike.

## March FOMC Meeting



## The Dot Plot



Source: CMEGroup.com

# 10-YEAR TREASURY YIELDS ARE RISING

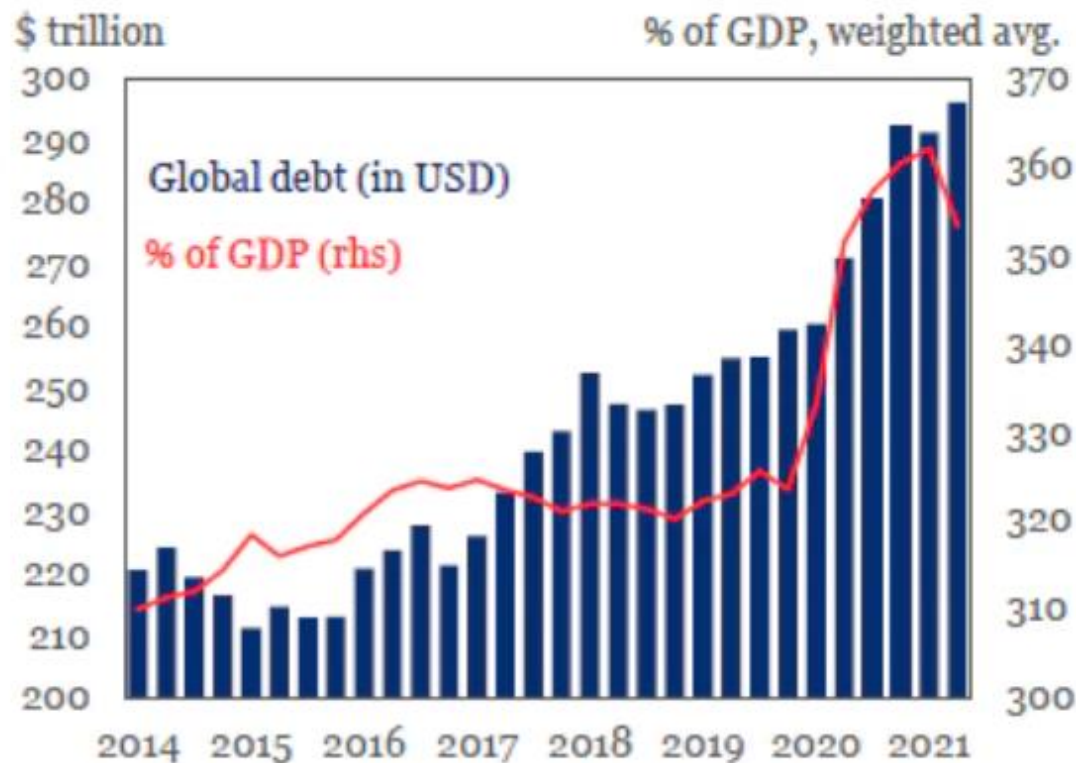
The bullish inflection above 1.80%, if sustained, projects a measured move to approximately 3.0%.



# GLOBAL DEBT IS SOARING

At the end of 3Q21, the total USD value of all global debt exceeded **\$295 Trillion**.

**Chart 1: Global debt is fast approaching \$300 trillion**



*Source: IIF, BIS, IMF, National sources*

*Source: FT.com*



# MARKET MOMENTUM HAS COLLAPSED

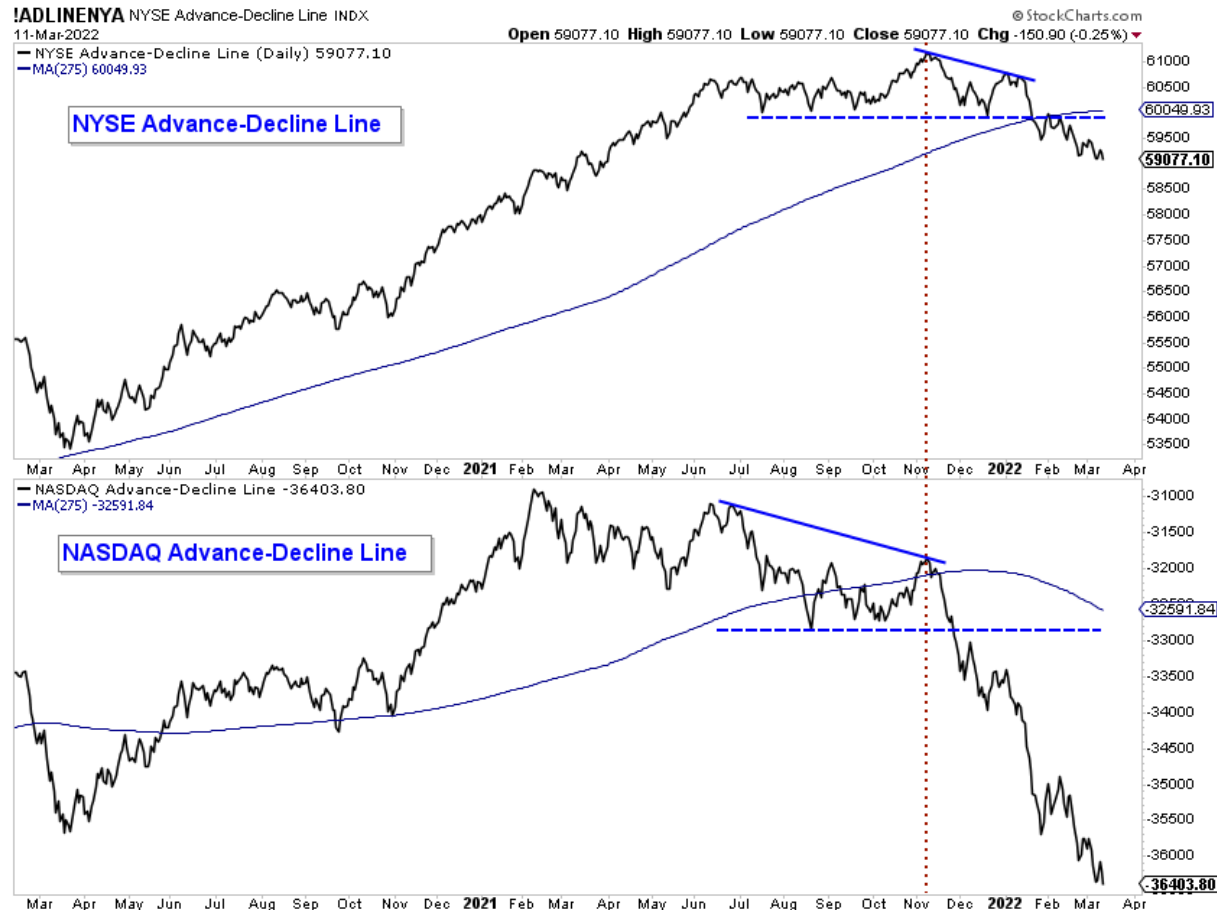
After posting a negative divergence in late-2021, the market's structural momentum subsequently collapsed. This condition is an important leading indicator of a major trend reversal. **The 7-year cycle is slated to bottom in 4Q22.**



Source: StockCharts.com

# MARKET BREADTH HAS COLLAPSED

The cumulative Advance-Decline Lines for both the NYSE and Nasdaq Composite indexes, together representing nearly 6,000 publicly traded securities, failed to confirm the market's final highs and have subsequently led the market lower.



Source: StockCharts.com

# NET POSITIONING IS NEAR RECORD LONG

The net positioning among S&P futures traders remains near a record net long exposure.  
The degree of long positioning today is **not at all consistent with past market bottoms**.

## NO CAPITULATION IN S&P 500 FUTURES YET EITHER

CFTC S&P 500 Futures Positioning and S&P 500



Futures positioning remains elevated (long)

CFTC futures positioning has typically gone deeply negative (short) at major lows.

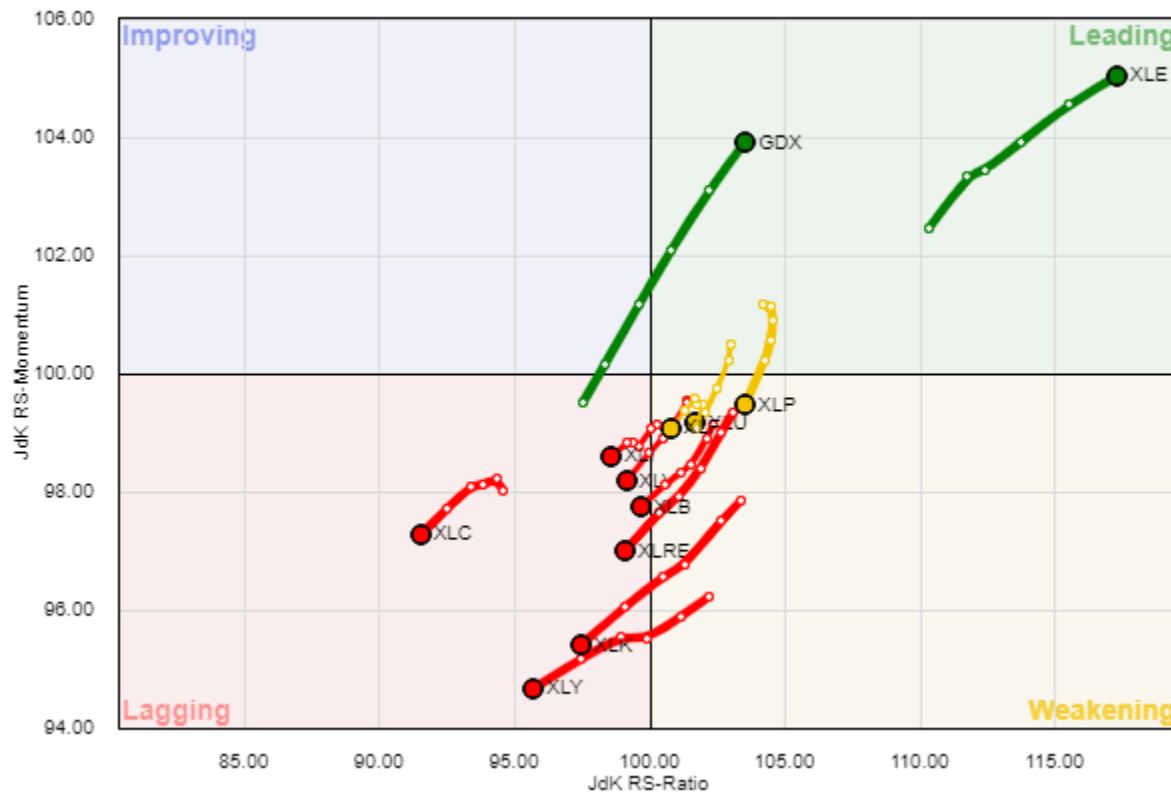
Note: these futures can be being used to hedge other positions, so are not a pure reflection of positioning. However, the degree of long positioning today is not at all consistent with a bottom.



Source: TopDownCharts.com

# S&P SECTOR LEADERSHIP IS NARROW

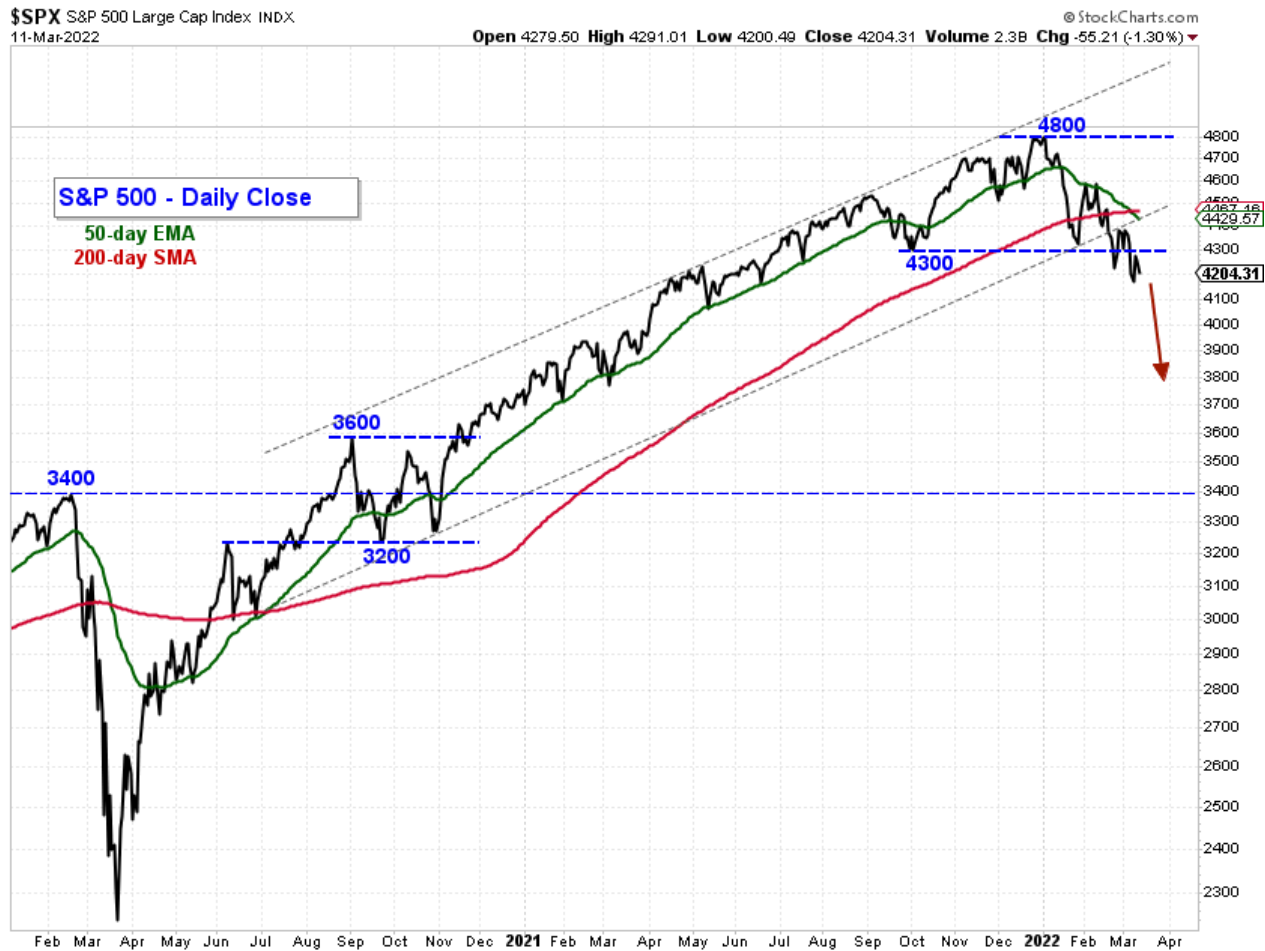
Among the S&P 500 GICS sectors, only **Energy** is in a confirmed uptrend. **Gold Miners** also look favorable.



Source: StockCharts.com

# TREND ANALYSIS: NOW BEARISH

The breach of SPX 4300, if sustained, projects a measured move to approximately **SPX 3800**.



Source: StockCharts.com

# ELLIOTT WAVE ANALYSIS: BEARISH

Intermediate Wave 5 of (5) of V Complete



Intermediate Wave of 3 of (a) of A Underway



Source: StockCharts.com

# SUPER CYCLE WAVE (III) TOP?

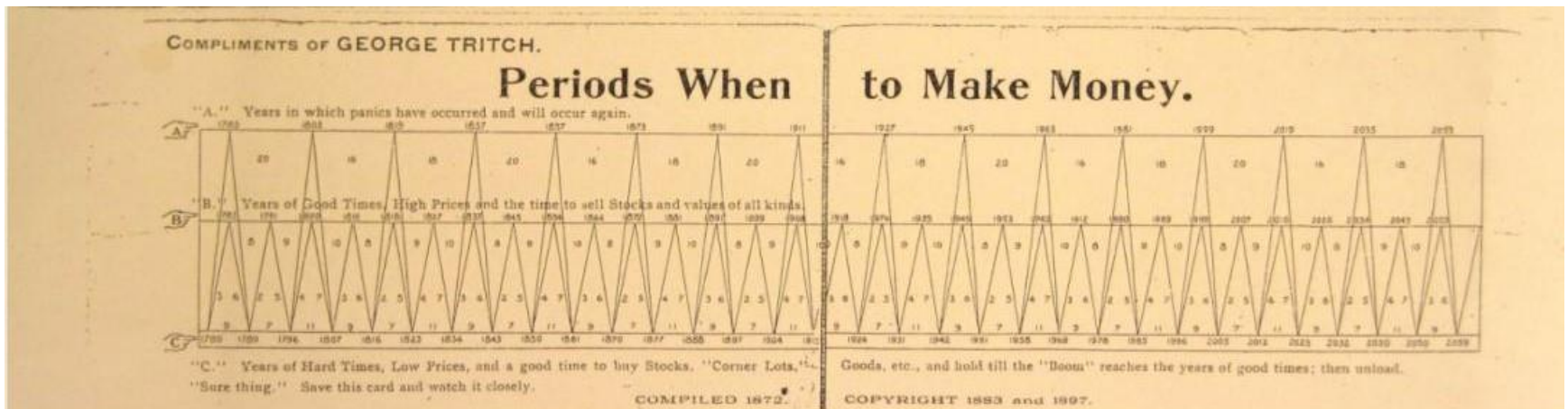
If Super Cycle Wave (III) topped at SPX 4818, then Super Cycle Wave (IV) is now in progress, and could potentially retrace 61.8% or more of the Super Cycle Wave (III) advance, to **test the lower boundary of the rising trend channel**.



Source: StockCharts.com

# THE BENNER CYCLE

If Super Cycle Wave (IV) is now operative, could the Benner Cycle expectation for a 2023 cycle bottom be poised to mark the wave A of (IV) low, while the expected 2032 cycle bottom be in position to mark the wave C of (IV) low?

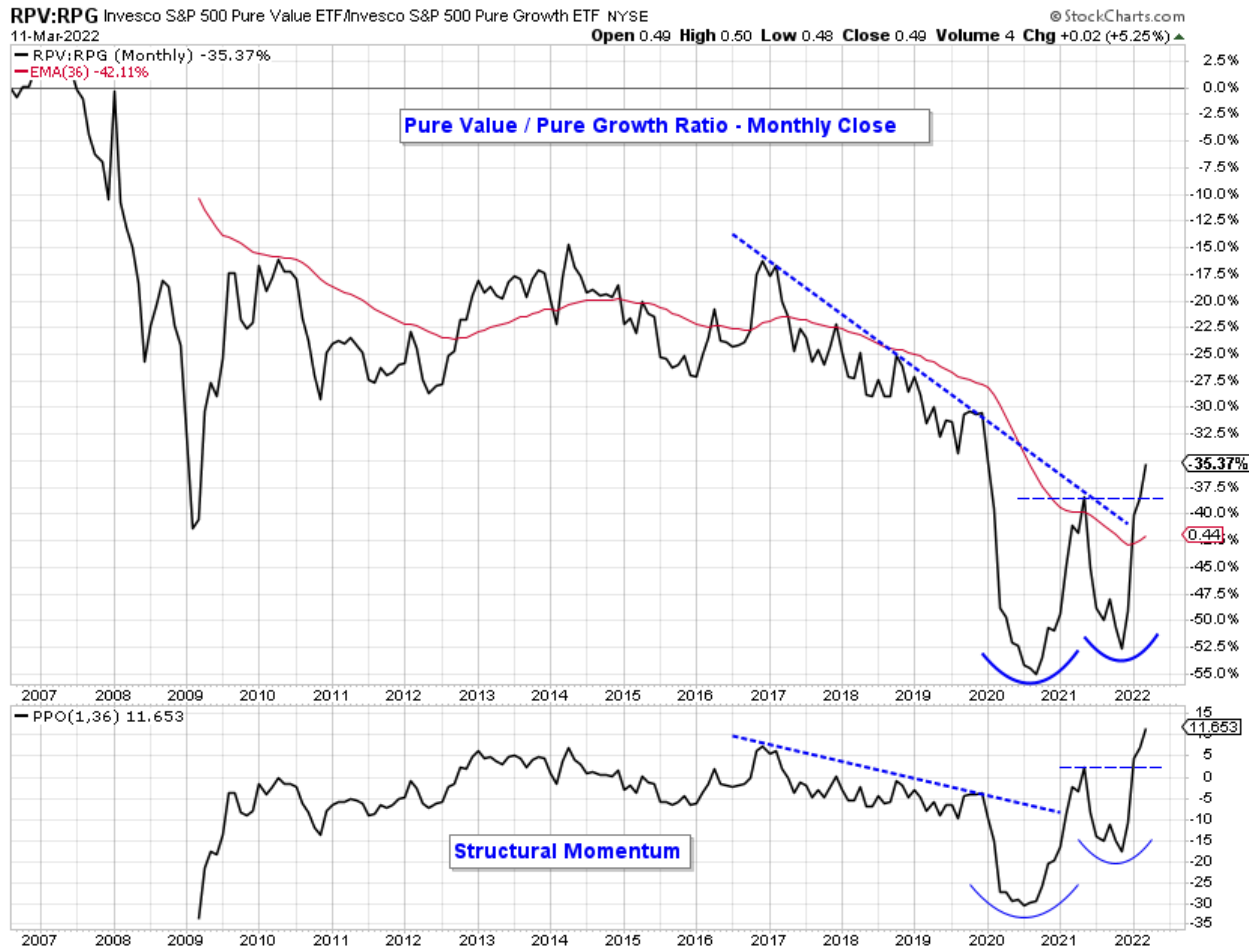


*Source: George Tritch, circa 1907*



# VALUE VS. GROWTH: BREAKING OUT

If there is a place to hide in stocks, it's likely to be found in being **long value** and **short growth**.



## Long RPV

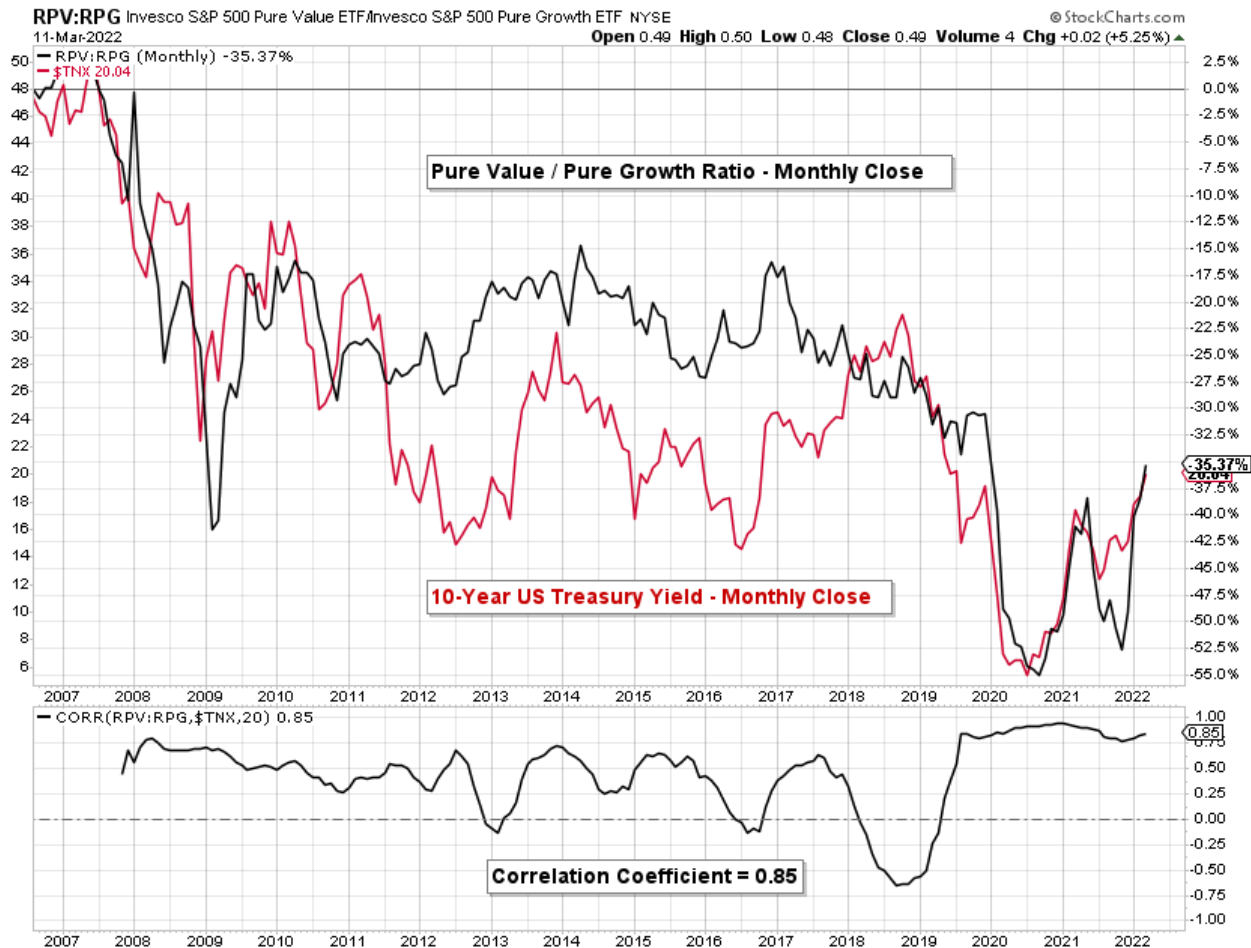
- Financials 31.18%
- Health Care 11.51%
- Consumer Staples 10.03%
- Energy 8.82%
- Communication Services 7.96%
- Materials 7.68%
- Consumer Discretionary 6.89%
- Utilities 5.93%
- Industrials 5.08%
- Information Technology 4.39%
- Real Estate 0.43%
- Investment Companies 0.10%

## Short RPG

- Information Technology 34.65%
- Health Care 16.84%
- Consumer Discretionary 14.44%
- Financials 12.39%
- Industrials 6.76%
- Energy 5.47%
- Communication Services 4.57%
- Utilities 3.43%
- Real Estate 1.43%
- Investment Companies 0.03%
- Cash 0.00%

# RATIO IS HIGHLY CORRELATED TO RATES

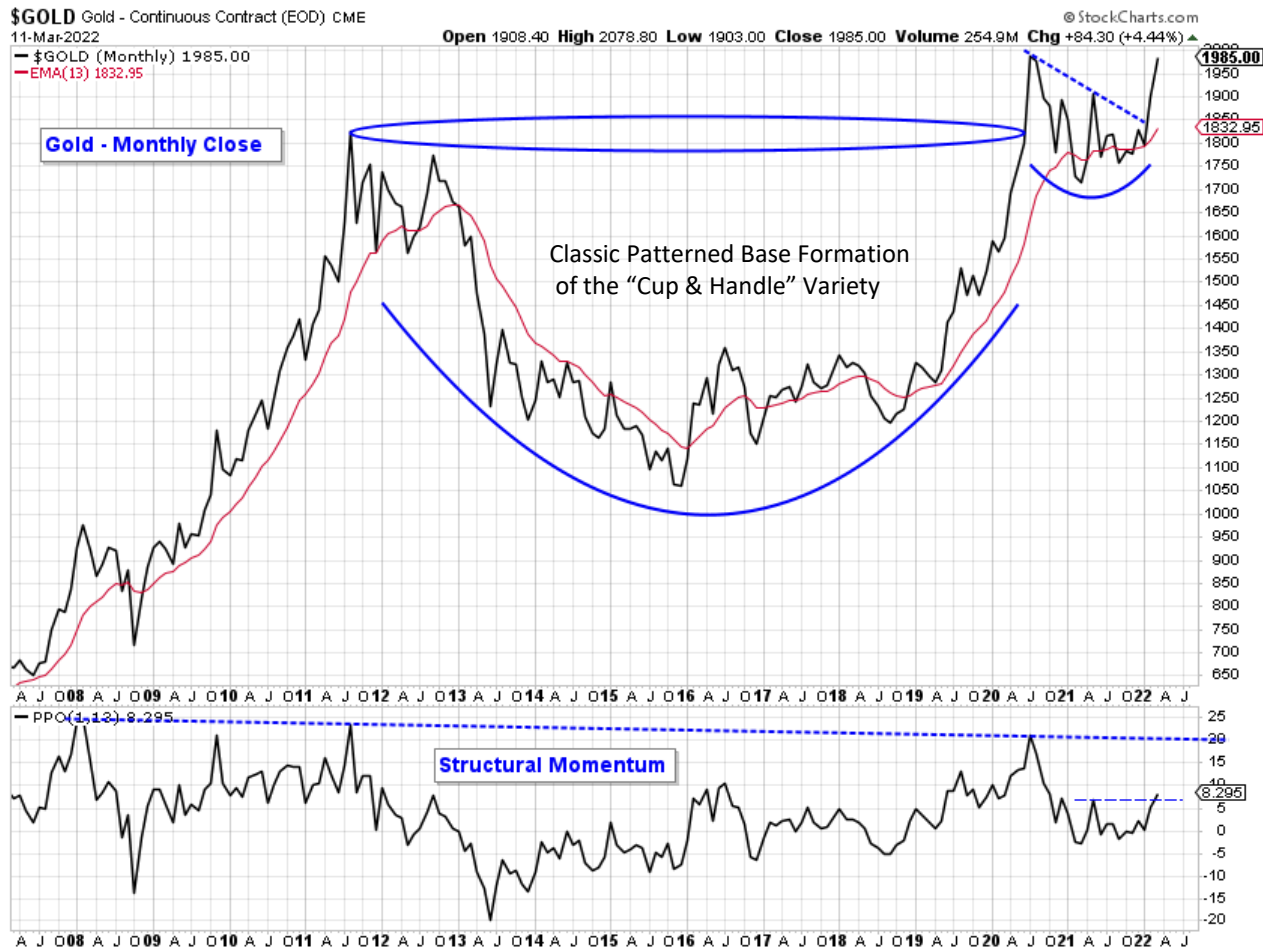
The ratio of Pure Value vs. Pure Growth has an **85% correlation** to the direction of the 10-year Treasury Yield.



Source: StockCharts.com

# GOLD: POISED TO BREAK OUT

Time will tell, but perhaps the best way to ride out the storm may be in holding **gold**. A sustained bullish inflection above \$2,089 would project a measured move to approximately **\$2,500/oz.**



# TOP ACTIONABLE TRADE IDEAS

(1-3 MONTH TIME HORIZON)

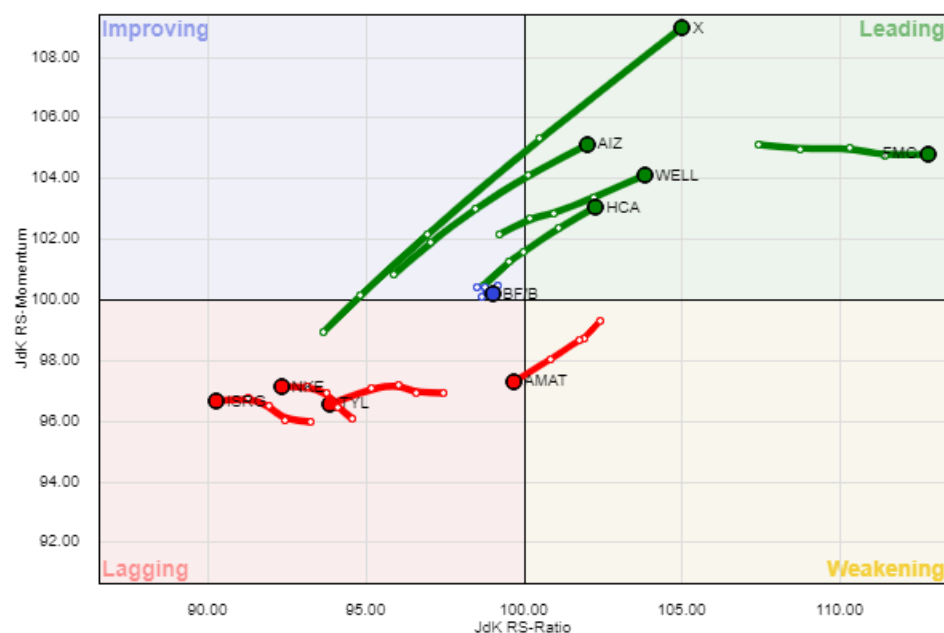
## Bullish Trade Set-ups

1. FMC Corp (FMC)
2. US Steel Group (X)
3. Assurant (AIZ)
4. Welltower (WELL)
5. HCA Healthcare (HCA)

## Bearish Trade Set-ups

1. Intuitive Surgical (ISRG)
2. Nike (NKE)
3. Tyler Technologies (TYL)
4. Applied Materials (AMAT)
5. Brown-Forman Corp (BF/B)

Weekly Relative Rotation Graph



Source: StockCharts.com

# FMC CORP

Reports 1Q22 on May 10<sup>th</sup> @ 4:40 PM ET



Source: StockCharts.com

# US STEEL GROUP

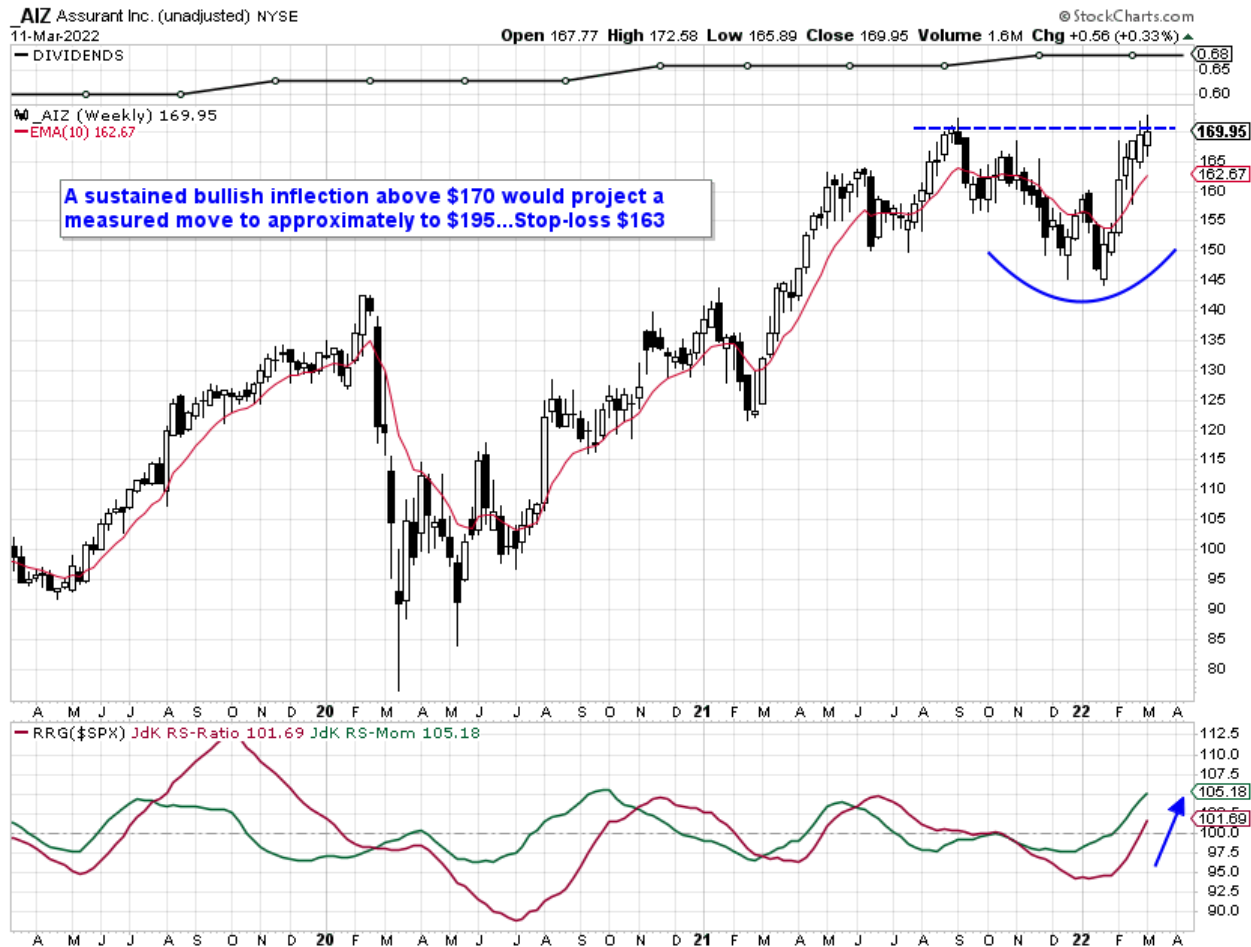
Reports 1Q22 on April 28<sup>th</sup> @ 4:15 PM ET



Source: StockCharts.com

# ASSURANT

Reports 1Q22 on May 10<sup>th</sup> @ 4:15 PM ET



Source: StockCharts.com

# WELLTOWER

Reports 1Q22 on May 17<sup>th</sup> @ 4:05 PM ET



Source: StockCharts.com



# HCA HEALTHCARE

Reports 1Q22 on April 28<sup>th</sup> @ 7:30 AM ET



# INTUITIVE SURGICAL

Reports 1Q22 on April 21<sup>st</sup> @ 4:05 PM ET



Source: StockCharts.com

# NIKE

Reports 3Q22 on March 21<sup>st</sup> @ 4:15 PM ET



Source: StockCharts.com

# TYLER TECHNOLOGIES

Reports 1Q22 on May 18<sup>th</sup> @ 4:15 PM ET



# APPLIED MATERIALS

Reports 2Q22 on May 18<sup>th</sup> @ 4:00 PM ET



Source: StockCharts.com

# BROWN-FORMAN CORP

Reports 4Q22 on June 2<sup>nd</sup> @ 7:30 AM ET



# TRADING & RISK MANAGEMENT

- ❑ Our Bullish and Bearish trade set-ups are defined by a confirmed (or expected) breakout or reversal signal with a positive risk skew of  $> 3:1$ . Not all signals are favorably resolved, but the system has proven positive expectancy, with a profit factor of 2.80:1 since inception (8/1/18).
- ❑ The time horizon of 1-3 months is a guideline. We expect to see the trading signal confirmed by significant price action that supports the signal within that time frame, or otherwise canceled via our stop-loss provision. We expect to let our winners run as long as possible.
- ❑ Initial stop-loss provisions are volatility based calculations centered upon the average true range (ATR) of the security. Once the 10-week EMA catches up to the entry price, it then acts as the new trailing stop-loss provision (**basis weekly close**).
- ❑ Position sizing is an important component of the risk management process. As such, position size should be defined by the maximum adverse excursion (Trade MAR).
- ❑ A practical way to implement this concept would be to define your Trade MAR (maximum loss of capital per trade) in advance. Then using the difference between the entry price and the initial stop-loss price, calculate the number of shares that would optimize that constraint for each trade.
- ❑ Occasionally, following unusual price action, we will raise our stop-loss to protect gains, or we may increase our price target if a new pattern develops, which allows us to expand upon our original forecast. In either case, subscribers will be notified via an *Interim Bulletin*.

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